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The Province of Alberta

IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta February 5th.1947.

VOLUME 1

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THE PETROLEUM AND NATURAL GAS CONSERVATION BOARD

Hearing at the Court House, Calgary, before G. M. Blackstock, Esq.,K.C., Chairman, and A.G. Bailey, Esq., Commissioner, on the 5th day of February, A.D. 1947.

THE CHAIRMAN: I think this is important enough that we should have an accurate transcript of what is said. Now, Gentlemen, we are here today because of matters that arise out of Order No. 11 of the Board, which is dated the 12th of January, 1945, and which was designed to regulate the price of gas to the producers connected to the G.O.R. system until such time as a final well head price was fixed by the Board. Under the terms of that Order, Madison was to pay to G.O.P. an amount equivalent to 2 cents an M.C.F. for that portion of residue gas, the property of the producers, delivered by G.O.P. to and accepted by Madison. Then, in addition to that there was the price to be paid for gas which was stored in the Royalite gas cap, and settlement of that was deferred until the price has been fixed by the Board. Now as you know the basic price fixed by me is 3 cents and that 3 cents should, of course, apply to the repressured gas. The 2 cents payable in respect of market gas has been held in trust by the G.O.R. pending final order of the Board, and it is the disbursement of that 2 cents that we wish to discuss today. I have no particular ideas on it at the moment. I want to hear from both parties interested, that is G.O.R. and

the producers connected to that gas gathering system. Perhaps, Mr. McDonald, we should hear from you first.

MR. McDONALD: Well I have a statement from the G. & O.R. representatives showing the amount of gas transmitted.

THE CHAIRMAN: Perhaps those should be filed first. Have you many copies of it?

MR. MAHAFFY: I will have to supply you with additional copies. I only ran off four.

THE CHAIRMAN: One is all I need, Mr. Mahaffy.

MR.MAHAFFY: I was thinking there were only the three of us interested in the statement and I only had four run off.

THE CHAIRMAN: You are not interested, Mr. Harrison?

MR.HARRISON: No.

MR. STEVENS-GUILLE; How long a statement is it? Could it not be incorporated in the record?

THE CHAIRMAN: That is right. You can include this in the record, Mr. Taylor, a statement produced by Mr.Mahaffy showing the revenue from sale of residue dry gas in the trust account, January 22nd, 1945 to December 31st, 1946.

GAS & OIL REFINERIES LTD.,
301 Lancaster Bldg.,
CALGARY.....ALBERTA

REVENUE FROM SALE OF RESIDUE DRY GAS IN TRUST ACCOUNT

JANUARY 22, 1945 - DECEMBER 31, 1946.

MADISON NATURAL GAS CO. LTD.:	M.C.F.	RATE	AMOUNT
Share of the market	1,834,846	.0200	$36,696.92
Stores in Bow Island	188,624	Deferred	527.69
Stored in Turner Valley	406,301	"	
Conserved	467,253	"	
Shrinkage and Flared	174,989	Nil	
Compressor Fuel, etc.	134,915	Nil	

GAS & OIL REFINERIES LTD:

Refinery Fuel Crude Operations	641,173	.0200	$12,823.46
Domestic Gas	38,347	"	766.94
Absorption Shrinkage	139,993	Nil	
Absorption Fuel	934,108	Nil	
Shrinkage and Flared	1,756,903	Nil	
	6,717,452		$50,815.01

MR.MAHAFFY: I wonder if I might make some explanations just at this stage so they will go in with the statement. First of all Order No. 11 provided for the deduction of $200.00 a month for handling and supervising the delivery of the gas. Now that $200.00 per month, which now amounts to $4800.00, is still in this trust account. In other words, the $4800.00 is included in the $50,815.01 figure.

The second point is the Order covered only gas which went to Madison.

THE CHAIRMAN: Yes.

MR. MAHAFFY: There never has, as far as I know, been an Order made directing that payment at the same 2 cent rate should be made for gas used for refinery fuel.

THE CHAIRMAN: Or domestic gas too, I suppose?

MR. MAHAFFY: And domestic gas. Now when Order No. 11 was made my people took the stand that probably sooner or later the 2 cents should be paid in respect of that fuel, and that has been paid in monthly to this account, and accounts as you will observe for roughly $13,500.00 of the moneys on hand. We are quite content that it be handled in the same way as if it had been covered by Order 11. But it does increase the amount to that extent.

THE CHAIRMAN: Yes. In other words your statement shows the gas that went to the Madison market, including Bow Island, and shows your refinery fuel and your domestic gas all at the basic

2 cent price.

MR.MAHAFFY: That is right.

THE CHAIRMAN: With no amounts checked out?

MR. MAHAFFY: Nothing has been taken out.

THE CHAIRMAN: Is that clear to everyone? Now, Mr. Mahaffy, there is an Order, I think it is No. 9, no No. 15, which covers the Bow Island stored gas. Are you familiar with that one?

MR.MAHAFFY: No, I cannot say that I am, Sir.

THE CHAIRMAN: Royalite shall on or before the 20th day of each month pay to Madison one-half of 1 cent for and on account of each M.C.F. of scrubbed gas so sold and delivered during the next preceding month, and the balance of the said price shall be paid in 1945. What is the position with regard to that, Mr. Stevens-Guille? Bow Island gas?

MR. STEVENS-GUILLE: For the years 1945 and 1946?

THE CHAIRMAN; Yes? That is as in the statement here, there has partial payment been made in regard to that?

MR. STEVENS-GUILLE: That was for1945 complete.

MR. SMITH: I believe it was 1945 complete. I am not sure when it stopped.

THE CHAIRMAN; That $527.69 represents the settlement to G.O.R. under the terms of Order No. 15?

MR. STEVENS-GUILLE: Yes. We are not quite certain of that.

MR. McDONALD: That was amended to .63 cents?

MR. STEVENS-GUILLE: Mr. Smith says that is from April to October inclusive. That was made each month from April to October, 1945, so that will be complete. That is while the old agreement in Bow Island was operative.

THE CHAIRMAN: That will leave 1946 to be settled

for later on when we finally arrive at whatever the amount is?

MR.STEVENS-GUILLE: Yes.

THE CHAIRMAN: So that at the moment we have a fund of $50,815.01 representing all the gas to which G.O.P. is entitled up to the end of 1946 with the exception of whatever amount will be coming to them in respect of Bow Island storage for 1946?

MR. STEVENS-GUILLE: Correct.

MR. MAHAFFY: We have to add to that also the Turner Valley storage and conserved gas. There may be some questions about shrinkage and flared gas and compressor fuel gas.

MR. STEVENS-GUILLE: Some questions? What questions?

THE CHAIRMAN: The stored gas is covered is it not by the Order?

MR. STEVENS-GUILLE: I was referring to some questions with regard to shrinkage and flared gas and compressor fuel. Mr. Mahaffy was raising. I was wondering what questions he has in mind.

MR. MAHAFFY: For instance on the shrinkage and flared, I do not know whether that is an item which will be covered in other Orders or not. The point there is, who should pay for that? Who should absorb the shrinkage?

MR. McDONALD: The producer is absorbing it. It is not marketable.

MR.MAHAFFY: The other point is should not we be paid 3 cents for transporting the gas which we do transport? The shrinkage takes place after we deliver it. Compressor fuel gas, I understand, is gas used by Madison in its pumping operations. That has been transported by us to that point of delivery.

MR. McDONALD: As far as the producers are concerned, Mr. Chairman, our submission is that we are selling the gas to the market and we do not want to bear any more of the transportation charges than is absolutely necessary. We have two problems. One is the G.O.R. area and the other the B.A. Utilities area. In this particular area there was no capital expenditure incurred whatsoever by Gas & Oil Refineries Limited to gather this gas. The gas was being delivered in accordance with the absorption plant contract. At the time, that is in 1945 when the original discussions ensued and the gas was delivered, there was no indication then by Gas & Oil Refineries Limited that they intended to make a charge for transportation. They came in in June 1946 with a tentative, or a submission with regard to transportation charges.

THE CHAIRMAN: I made them do that, Mr. McDonald.

MR. McDONALD: Yes. All expenditure in the nature of addition to the undertaking was made after the Gas & Oil Refineries Limited installation, that is to say for delivery to the market. On the facts submitted by the Gas & Oil Refineries Limited it is difficult to arrive at what the actual cost of conveying this gas from the well head to the absorption plant was. In view of that uncertainty and in view of the fact there is no difference in the operation of the refinery, and there is no need of the outlay of any kind for that two years, I submit the question of transportation charges should be foregone by Gas & Oil Refineries Limited.

THE CHAIRMAN: That is that they should be content with their $200.00 a month for bookkeeping purposes?

MR. McDONALD: Yes, for the additional inconvenience that has been caused them.

THE CHAIRMAN: Then, Mr. McDonald, since this is a public utility and since because they quite properly conducted their business as an integrated complete operation, without any segregation of the various divisions, but since they are a public utility and since they are affording a service, why should not they be paid for that service? Even though it is exposte facto?

MR. McDONALD: The service they have rendered is making available to market a certain proportion of the gas which they transport.

THE CHAIRMAN: Under compulsion.

MR. McDONALD: Yes, I suppose it would be. Yes, after the facilities were placed at their door.

THE CHAIRMAN: Yes. Ordinarily they could have said "We are not interested. We do not want to bother shooting this to market." But the Board says "You must do it." Why should not they be paid?

MR. McDONALD: We are up against another problem and that is the actual wording of the contract as between the producers and the Gas & Oil Refineries Limited. Under the terms of that contract gas at the outlet of the absorption plant is the property of the producers, subject to an option of Gas & Oil Refineries Limited to purchase it at 2 cents a thousand. All that has been done in this case. The producer is selling at that point his gas at 2 cents a thousand, and that is actually what has occurred. As and from 1947 I think the Order of the Board will apply. From that point there is no change in the rights of the producer.

THE CHAIRMAN: Excepting to the extent that the Interim Order might be said to have abrogated the terms of your contract.

MR.McDONALD: Except in the Interim Order subject to the rights of all parties for the protection of both parties. I think the last section of the Order - "This Order is intended to be temporary in nature pending the completion of the Hearing and nothing herein contained shall affect or prejudice the rights of any person, firm or corporation affected hereby, or the right of the Board to alter, vary, or rescind this Order."

THE CHAIRMAN: Yes.

MR. McDONALD: The situation has developed that revenue is taken from the producers here. If the charges are made to the producers' share it then becomes revenue in the hands of the company with respect to the absorption plant operation, since the proportion of the product of the absorption plant is fixed at 80% and 20%. There is a new element in the picture that should be given consideration before the producers should say to the Gas & Oil Refineries Limited "We accede to you obtaining additional revenue for these two years of so many thousands of dollars, say fifteen or twenty thousand dollars." It is a very substantial portion of the actual amount of money received by the producers for the absorption gasoline on their 20% division. It would mean that in effect for those two years the absorption plant is going to have this additional revenue, not because of anything the absorption plant has done and not because of anything, of any expenditure they have made or any earning of any type.

THE CHAIRMAN: Supposing I applied that argument all the way through my decision, where would you be?

MR. McDONALD: I am quite sure the same argument would not apply in the other particular areas. We have a different situation here altogether as to what the situation is

in the British American area. We know there in order to gather the gas and make the scheme work an expenditure approaching some $200,000.00 for a gas gathering system was instituted. That is a different picture altogether.

THE CHAIRMAN: Supposing I had ordered G.O.R. to put in the suction line and the compressor station and discharge line, what then?

MR. McDONALD: Then very possibly a very similar disposition of the allocation of costs could be made as was made in the British American area. The same situation does not apply.

THE CHAIRMAN: But having ordered Madison to do it, is not Madison entitled to something?

MR. McDONALD: I am not dealing with the point that Madison should not be allowed something for the transmission line from the absorption plant to the Madison scrubber.

THE CHAIRMAN: The G.O.R. should pay it?

MR. McDONALD: I do not say the G.O.R. Company should pay it. The G.O.R. area producer might be subject to some deduction from his 2 cents for that particular charge, very much along the lines you have already set out in your reasons for judgment. But I do not think that the scheme should work out to the effect that Gas & Oil Refineries Limited are going to have say $18,000.00 taken into revenue for 1945 and 1946 which, under no stretch of imagination could they ever have anticipated, or would they be entitled to under the contract under which the producer is delivering his gas to them?

THE CHAIRMAN: Then you will remember the situation with regard to the absorption plant on the figures submitted. I do not remember what they are. But they are operating at a very, very heavy loss, are they not?

MR. McDONALD: Again we are met with the integrated operation. We do not know.

THE CHAIRMAN: Why should they perform a service in 1945 and 1946 and not be paid for it? If that is sound, then they should not be paid from now on.

MR. McDONALD: No. From now on the gas is to be delivered under a specific order of the Board at a price which the producer himself has applied to the Board to fix, and they are actually performing a service, I think at the request of the producers. Pending the final Order of the Board, I think the interim costs incurred and the service rendered should remain with the absorption plant. What I wish to emphasize, Sir, is Gas & Oil Refineries Limited have done nothing at all as a result of the Board's Order. They have simply kept a set of books for which they are entitled to certain compensation.

THE CHAIRMAN: And that is all they are going to do from now on.

MR. McDONALD: No, they have the responsibility of delivering the gas through that transportation system whether the gas is required for that absorption plant or for their own purposes or not.

THE CHAIRMAN: They had that same responsibility during those two years?

MR. McDONALD: No, I do not think the Order goes that far.

THE CHAIRMAN: Perhaps it does not but they did it.

MR. McDONALD: They did it, yes.

THE CHAIRMAN: And you get your old legal principle of quantum meruit coming in there, don't you?

MR. McDONALD: Quantum meruit will depend upon

whether they are rendering a service to the producer which the producer is obliged to or should pay them for. We say they are not giving us any additional service whatever. They are giving us the service which they are obliged to give us under their contract which is still in force and effect. They should not be paid twice for it. The contract itself provides adequate compensation for them for that service. They are actually getting a clear gift over and above their contract price for their absorption gasoline.

THE CHAIRMAN: Have you anything further to contribute, Mr. Mahaffy?

MR.MAHAFFY: I do not want to say very much. Mr. McDonald's earlier remarks I do not propose to reply to at all because I think he is launching back into an argument which was threshed out in the main Hearing. I do not see any object in re-arguing the past two years again. It is quite true that this system was largely in effect anyway when the hearing was launched. The same applies to the Madison absorption plant and its gathering system, and to a large extent to the B.A. system. I do not think that is the point. The point is, Sir, that a new Act was passed. You were given powers to do certain things. We had responsibilities and obligations as a result of the passage of that Act and early in 1945 in the interests of all parties - and if I may say so particularly in the interests of the producers - you saw fit to make Order No. 11 so as to preserve to the extent possible at that time some revenue for the producers from the gas until such time as you had all the facts and could make a final Order.

Now that money, in accordance with that Order, has been deposited in this trust account. We have gone further than that. We have also put into that trust

account a sum close to $13,000.00 for refinery fuel. I do not know if we had any obligation to do that. It struck us though it was the fair thing to do.

THE CHAIRMAN: Was that covered by your casing head contract, Mr. Mahaffy?

MR. MAHAFFY: The refinery fuel?

THE CHAIRMAN: Yes?

MR.MAHAFFY: No, I do not think it would be.

THE CHAIRMAN: How was it treated before? You just used the gas and that was all there was to it?

MR.MAHAFFY: We just used the gas, yes, that is right. Now you have decided, and again I am not going to enter into that as to whether or not.....

THE CHAIRMAN: Whether I was wrong or not?

MR.MHAFFFY: Yes, that three-quarters of a cent per thousand was a fair and proper allowance for the transportation of this gas. To my way of looking at it, we have come to that figure. We now go back to 1945, in January, and we say "Now what is to be done with the proceeds of the sale of that gas?" The $200.00 per month was then described in the Order as payment in handling and supervising the delivery of gas. I suggest in one way of looking at it one perhaps could say now that we should have three-quarters of a cent for the gathering and pipeline rates and the $200.00 per month should cover the items mentioned in Order No. 11. But I am not pressing for that. I think your intention is from now on we get three-quarters of a cent a thousand not the $200.00 per month.

THE CHAIRMAN: That is right.

MR.MAHAFFY: Consequently we are content that that same rule apply for the same reason, should apply to the past

two years. I cannot for the life of me see any difference for the rule in 1947 and the rule in 1946. The costs are there. I have no doubt, Sir, - I may be presuming conditions which I am not entirely familiar with, but I assume in the case of Madison, for instance, the allowance you make to them on a similar basis will go back to January,1st, 1945, and so we see no reason why the same treatment should not be extended to G.O.R.

Now Mr. McDonald makes quite a bit of the fact that this is just a hand-out to us. I certainly do not see that at all. We have been designated a public utility. A service has been rendered. I do not think anybody is entitled to take a free ride on the street car without contributing on the basis that you have found a fair basis of contribution. So our suggestion, Sir, is that the three-quarters of 1 cent a thousand rate should be in effect from Januay 1st, 1945 , and payment made on that basis, and that the $200.00 per month be deemed included in the three-quarter cent rate.

THE CHAIRMAN: Supposing I related, Mr.Mahaffy, my 3 cent rate and my cost allocation to the 2 cent rate.

MR.MAHAFFY: You mean in the same proportion?

THE CHAIRMAN: In other words, that the G.O.R. would take the same ride as the producer is taking. I am only exploring for the moment.

MR.MAHAFFY: As I say it seems to me in order to be consistent, if there is any virtue in being consistent, that the three-quarters of a cent rate is based on a considered opinion of a fair return for doing a certain service.

THE CHAIRMAN: On the other hand, if my well head price of 3 cents is correct, just assuming that it is, - I am

sure you do not agree it is, - but assuming it is correct, then would not the same argument apply that your people in the interim period should suffer a proportionate loss with the producers in respect of the difference of 1 cent in the price of gas?

MR.MAHAFFY: That is a point of argument. May I ask whether a similar scheme might be considered in the case say of Madison?

THE CHAIRMAN: I think I will have to apply the same equitable principles to all of them, Mr. Mahaffy.

MR. MAHAFFY: That is really all we ask. As I have emphasized at different times during the Hearing, we are a comparatively small part of this whole picture. Our attitude from the beginning - and again this applies to the absorption plant contract that Mr. McDonald refers to - we feel if we are treated as the others, we have no grounds for complaint.

THE CHAIRMAN: Mr. Stevens-Guille, have you anything you would like to contribute to the discussion?

MR. STEVENS-GUILLE: No, I do not think so, Sir.

THE CHAIRMAN: I see Mr. Moyer here. Does he have anything he would like to advance?

MR.MOYER: No sir. It is pretty well over my head.

MR. HAMILTON: Would Madison feel that they had a priority to the $4700.00?

THE CHAIRMAN: That is why I invited Mr. Stevens-Guille to contribute to the discussion if he would.

MR. McDONALD: That is quarter of a cent per thousand for the Madison market.

MR.HAMILTON: Yes, I was wondering if Madison felt they had a priority to it or not. Or an interest for that

matter.

MR. STEVENS-GUILLE: They have an interest in it, obviously.

THE CHAIRMAN: No doubt of that. It is just a question of quantum.

MR. STEVENS-GUILLE: I think what Mr. Mahaffy said would refer to Madison, if it is going to be reduced to a two-thirds basis, 2 cents as compared to 3 cents, that it is fair that it will apply all around.

THE CHAIRMAN: It will have to be either. It either comes to applying decision to this or varying it with relation to the 2 and 3 cents well price. It is one or the other. On the other hand, if you have any other solution I will be very happy to hear it and consider it, because I am not going to give a decision today. We are getting into a position of exposte facto dealings which we discussed this morning in another relation. If there is any other suggestion we will be very happy to consider all that has been said and give our decision at a later date. But in view of the fact that there is a reasonably substantial sum of money tied up we will try to give it quickly. One question does arise and that is is there any need of an audit, or should payments be made from this trust fund subject to the audit by the Board's auditor?

MR.MAHAFFY: Mr. Scrimgeour, Sir, has complete monthly statements which we will be glad to put in if Mr. Hamilton would like to check them over.

THE CHAIRMAN: I had in mind Mr. Baines, Mr. Mahaffy, my regular auditor, who will have to do this work from now on.

MR.MAHAFFY: This statement I filed today is just a summary showing the total. The first set of figures headed "Madison Natural Gas Company Limited" are figures supplied to

us by Madison. The second set of figures are our own.

THE CHAIRMAN: The audit, in fact, should be an audit of the Madison rather than the G.O.R.

MR.MAHAFFY: I do not think it is necessary on ours. It may be of theirs.

MR..STEVENS-GUILLE: I was going to hesitate to comment on that, but I shall now. I am forced to. We would very much prefer that our figures should be audited before any distribution of money is based upon them.

THE CHAIRMAN: There is this difficulty, Mr. Stevens-Guille. You know the difficulty that I have. I have one auditor and one assistant. Both of them have more work than they can conveniently catch up with., Your Valley Pipe Line, he is booked for that in the beginning of March. He has still got two milk plants to do in Edmonton, two in Calgary, two in Lethbridge and one in Medicine Hat. And then Mr.Smith wants him to come to talk about setting up books. And all that work plus routine work it is quite heavy and he could not do the audit for quite a few months. But all of these men are going to be connected with this system for another year, and if errors should be apparent in the audit - and I do not think there will be - but should there be any, it would be quite easy to make an adjustment with these fellows later on. Really I am anxious to get this money into the hands of those people who should have it, and any payment would be subject to adjustment on audit. That would be agreeable, would it not?

MR. STEVENS-GUILLE: That would be agreeable. It is just a question of force of circumstances.

THE CHAIRMAN: So that will be hedged accordingly.

MR.STEVENS-GUILLE: I think it is desirable to have them audited now, to prevent questions arising at some later time

when the details are not familiar in people's minds.

THE CHAIRMAN: I do. I think the audit should be made by the Board's auditors,

MR. STEVENS-GUILLE: Yes sir.

THE CHAIRMAN: Although I have all the faith in the world in your own.

MR. STEVENS-GUILLE: But there are always possibilities of differences in interpretation.

THE CHAIRMAN: That is correct. That is something I have unfortunately noticed more than once in the last three years.

MR.STEVENS- GUILLE: There is one point we would like to speak to. Are we going to discuss this question to which figures are going to be applied, that is to say whether the shrinkages, flared and compressor fuel - which I might point out that compressor fuel there is known as field fuel used for the actual G.O.R. residue gas, and has nothing to do with the fuel used on the.....

THE CHAIRMAN: My distribution is going to be on the basis of $50,815.01 available for distribution either on the basis of 1 cent or on the differential between 2 and 3 cents.

MR. McDONALD: Based on the share of the market?

THE CHAIRMAN: After all Madison and B.A., they collect, , they gather and they have all these same shrinkages, but they are only allowed costs on the basis of market delivery and that should apply all the way through. In other words, the amount that is there, that is the amount that is available for distribution between the people who are entitled to it, there will be no differential on the amount that goes to Bow Island or the amount that is stored in Turner Valley.

That is part of your three-quarters of a cent from now on, Mr. Mahaffy. I mean it would be absurd to attempt a differential on a discounted price of whatever it is, .63 cents. One point I am interested in, shall I charge the producers one cent or shall I relate it to these figures on the 3 cent basis?

MR. McDONALD: There is a great deal of equity in relating it to the price as fixed in the final Order, in the Interim Order, as to the 2 cents. I think that is a reasonable approach to the problem. I know it would be much more acceptable to the producers than a straight assessment on the basis of the 1 cent.

THE CHAIRMAN: Unfortunately everyone must realize, and I think they do, that in 1945 when we made these orders we were groping in the dark. Everyone of us. We were proceeding on the method by which the world has developed, trial and error, mostly error. Now we have to try to straighten out the error as much as we can. Is there anything else? Has anyone anything further?

MR.MOYER: Is it your suggestion that the three-quarter cent applicable to 1945 and 1946 be cut one-third?

THE CHAIRMAN; Something of that order, yes. That is if I applied the terms of my final decision to this you would be getting 1 cent. If I relate it to Order No. 11, as compared with the decision, you will be getting something more. The G.O.R. will be standing its corresponding share and also Madison.

MR.MOYER: The thing that bothers me a bit - I am beginning to pick up what the discussion is about - as you say for the interim period it was a shot in the dark, or a dignified guess as to price. Later upon review you

found it to be something definite and you fixed three-quarters of a cent for that charge and the price of gas of 3 cents at the well head as against 2. I just cannot reconcile at the moment the solution you are suggesting, because the fact appears to be that three-quarters of a cent should be the proper price and not 2 cents but 3 cents should be the well head price. In other words, if no corrective can be applied to the 2 cents why should there be a corrective applied to the three-quarter cents. That was a shot in the dark too.

THE CHAIRMAN: One thing I cannot do, I cannot go to the Gas Company and say "Now look, you must pay more for your gas for 1945 and 1946."

MR.MOYER: I recognize that, and I do not see how you will apply the same burden to the utilities as you are to the producer who had to take this shot in the dark price. You are coming pretty close to giving the utilities pretty well what they should have had and not giving the producers what they should have had, as you now find to be the price. I did not get the proper background for this discussion before I came up here but as I pick it up now it is bothering me.

THE CHAIRMAN: Well, Mr. McDonald contends that the G.O.R. should get nothing for the service they rendered for the two years and that the producers should get the whole of the two cents. Quite frankly that does not strike me as being fair.

MR.MOYER: It is possible the producer should get 3 cents which should be the price found to be proper and the utilities' three-quarter cents, but that cannot be done.

THE CHAIRMAN: I have no place from which I could get that additional cent.

MR MOYER: My problem is whether the burden of this shot in the dark price is being adjusted between the producer and the utilities properly.

THE CHAIRMAN: When you come to the shot in the dark do not forget that your people helped to load the gun.

MR. MOYER: Yes, but that is something we cannot fix. This is determinable, this item right here. I am not qualified to say what the basis should be. But I can see the suggestion is pretty close to giving the utility what is found to be the proper item and still the producer is not going to get what has been found to be the proper item.

THE CHAIRMAN: What is your suggestion, Mr. Moyer?

MR. MOYER: I have not any. The thought just struck me.

THE CHAIRMAN: Do you agree within the next few days to submit to me in writing what your suggestion would be?

MR.MOYER: I would like somebody to, Sir.

THE CHAIRMAN: All right.

MR. McDONALD: We will discuss it with the Committee and make a submission.

THE CHAIRMAN: Whatever submission you want to make you will submit it to Mr. Mahaffy and Mr. Stevens-Guille, so that we shall not make a decision without all parties having been heard.

MR. McDONALD: Yes, that is true, Sir.

THE CHAIRMAN: All right, that will be all we will have on that for today.

Gentlemen, there is still one more thought that might be advanced, and if you can adopt it I will be very happy, and that is to sit around the table and come to an agreement on the thing. It would save me lot of work and

responsibility. You do not have to, but it is a suggestion to you.

MR. McDONALD: I will not be making any submission, a further submission, if there is not anything I wish to say.

THE CHAIRMAN: And if you reach an agreement you will advise me?

MR. McDONALD: Yes. The difficulty about an agreement is it is difficult to say, acting on behalf of all the proeucers that I represent, every one, I am afraid it will have to be left in your hands.

THE CHAIRMAN: Now, Mr. Harrison?

MR.HARRISON: Has this to go on the record too? I am afraid my authority by way of making an arrangement or settlement or anything committing the company, will be rather limited. I had not expected today that this thing would be gone into the way G.O.R. have. In fact I did not know until this morning we were required to bring these figures.

THE CHAIRMAN: You have at the moment held in trust $130,694.94?

MR.HARRISON: According to my information, Sir.

THE CHAIRMAN: What does that represent, 2 cents on the volume of gas sold?

MR.HARRISON: That is correct.

MR. BAILEY: And how much for the field fuel?

MR.HARRISON: 2 cents, right across both columns.

THE CHAIRMAN: And involved in that is the question of the result of the absorption plant operations, if the cost allocation is retroactive to January 1945?

MR.HARRISON: That is correct.

THE CHAIRMAN; You do not have that figure now?

MR.HARRISON: We have not got it.

THE CHAIRMAN: We cannot do very much with it until you have that figure , and until the Board decides the date of the application of the cost allocation.

MR.HARRISON: Quite, Sir, that is the position.

MR. McDONALD: I do not understand, Sir, what you require in the way of a statement about the absorption plant.

THE CHAIRMAN: The position with Madison is this, Mr. McDonald, that they have been booking the absorption plant with charges on a certain basis. Our schedules have been computed on the basis of that cost allocation in the final decision being applied as from the 1st of January, 1945. The Madison either loses money or goes back to the Royalite and says "Pay us more money for 1945 and 1946." I do not know what Royalite would say if they went and asked them, but I have a shrewd suspicion. The same problem applies exactly with the B.A. They have been charging on a basis of our schedules and computed on the basis of the cost allocation relating back to 1945.

MR.McDONALD: Is not the producer in much the same situation except that his money is available?

THE CHAIRMAN: Yes. It is just a question as to the extent to which the producers' share should be used to assist in wiping out that deficit. The same may apply in the North end of the field.

MR. McDONALD: The money available in the North end of the field, in the nature of moneys due Madison, for stored and conserved gas, it is a credit balance of the Madison Company with the Royalite.

THE CHAIRMAN: Oh, there is a very nice chestnut for

you to crack.

MR. STEVENS-GUILLE: I would make one point there. Royalite has actually spoken because Mr. Chambers in his submission to you was actually representing Royalite.

THE CHAIRMAN: That is right. That was raised on the 23rd, Mr.McDonald, by Mr. Chambers. I admit I did not get the significance of it at the time.

MR. McDONALD: No, it did not occur to me at that time. Could it be repeated?

THE CHAIRMAN: Yes, I can show you exactly what he said. I think I can. The bottom of page 5 and page 6.

Now, Mr. Smith, there is somthing I would like you to do in connection with the deficit we were speaking of this morning. That deficit is based upon charges which you have made Royalite as per your original submission of 5%.

MR. SMITH: 5% of the sales, that is right.

THE CHAIRMAN: I would like you to prepare a statement and show me what the deficit would be had you charged them on a volumetric basis.

MR.SMITH: We can do that.

THE CHAIRMAN: Instead of $206,000.00 it would be somewhat less would it not?

MR. SMITH: Yes, it would be about $130,000.00 I would say offhand, of a deficit instead of $260,000.00.

THE CHAIRMAN: Supposing there was no Interim Order and supposing you had said that"the Royalite is a very good friend of ours, in fact very close relation and let us just charge them $1.00 a year," and then come back to me and say "Look at the money we have lost. What are we going to do about it?

MR.SMITH: If we were charging $1.00 a year you would put an Interim Order in, would you not?

THE CHAIRMAN: I did not know what you were doing.

MR.STEVENS-GUILLE: I disagree with you there, Sir, because it is in evidence what we were doing. It is in the evidence. Mr. Chambers has a note on it. We looked it up. We can give you the verse and the chapter.

THE CHAIRMAN: Put it the other way, supposing you had said "We will charge $1.00 a year."

MR. STEVENS-GUILLE: Quite. I quite see your point, Sir.

MR. SMITH: The volumetric has been worked out for 1945 in Exhibit 158, some $92,000.00 instead of $25,000.00.

MR. STEVENS-GUILLE: Would you like the equivalent figure for 1946?

THE CHAIRMAN: Yes, that is right, showing what the ultimate cost would be on the volumetric basis.

MR. SMITH: On a quick figure it would be about $130,000.00 deficit.

THE CHAIRMAN: That is a lot of money, $73,000.00 just to pick up like that.

MR. STEVENS-GUILLE: And $260,000.00 is quite a lot of money to pick up from somewhere too.

THE CHAIRMAN: Mr. McDonald, that loss that we speak of is based upon a charge to Royalite of 5% of the natural gasoline. I have asked Mr.Smith to prepare a statement which would show the result had they billed Royalite on a volumetric basis.

MR. McDONALD: At 17 or 18% or 40%?

MR. STEVENS-GUILLE: No, actually.

MR. McDONALD: The actual volumetric.

MR. STEVENS-GUILLE: It was shown for 1945 in Exhibit 158.

MR. SMITH: It did work out at about 17 or 18%.

MR. STEVENS-GUILLE: For that year.

MR. McDONALD: The actual income though was on the basis of 5% which you actually received?

MR. SMITH: That is right, charged and received.

MR. McDONALD: I am afraid, Sir, where the companies are so closely connected as these two companies are, that adjustments, reasonable adjustments, can be made, or, if not made, can be taken into account in fixing a rate of return.

THE CHAIRMAN: Yes, that is true of the British American too, of course.

MR. McDONALD: I am thinking that the producers should not be unjustly, or unduly charged.

THE CHAIRMAN: I am glad you changed that.

MR. McDONALD: I would like both companies to let me have some material with regard to the problem when they have it ready.

MR. STEVENS-GUILLE: We will supply you with a copy of our letter to the Board. It is all covered in the record. It is only a matter of going to the right places.

MR. McDONALD: I would ask Mr. Harrison with regard to the gas sold in the field for fuel, that was drilling fuel for drilling rigs, and some domestic?

MR. HARRISON: I really do not know.

THE CHAIRMAN: What domestic have you?

MR. HARRISON: That is what I do not know.

THE CHAIRMAN: I know you had one chap east of the plant. You had one domestic consumer at one time, because I had to step on you for selling him bad gas.

Then we will simply have to adjourn this until Mr. Harrison and Mr. Stevens-Guille have their completed statements.

MR. HARRISON: Will you make it clear what you want from us, so there will be no misunderstanding?

THE CHAIRMAN: I want a statement to show what is to happen to your absorption plant if the cost allocation is made retroactive to the 1st of January, 1945.

MR. STEVENS-GUILLE: I would like to raise the question then, Sir, of the price of gas for drilling wells and lease fuels be held over until Mr. McDonald is ready.

THE CHAIRMAN: Yes, the price of gas for drilling, Mr. McDonald, has been based upon 2 cents per M.C.F., but computed on a flat rate basis related to 2 cents, plus the value of the natural gasoline content.

MR. STEVENS-GUILLE: That is insofar as Royalite gas, Sir. I would not necessarily say that is true throughout the field.

MR. SMITH: That rked out at about $475.00 a month.

MR. McDONALD: On the basis of how much per day?

MR. SMITH: Approximately 800,000 a day.

THE CHAIRMAN: Unless the producers are willing to accept a smaller well head price for drilling fuel, then the price of drilling fuel must of necessity go up.

MR. McDONALD; That is it will go up to 3 cents instead of 2 cents?

THE CHAIRMAN: Well, whatever the relationship is, I do not know how the $475.00 is arrived at.

MR. STEVENS-GUILLE: I can state that because I actually computed it. It was, I think, 700 M.C.F. per day per rig times

2 cents, plus the value of the gasoline content as it then was for an average crude oil well. I think we took either 1/10 of a gallon as the content or 12/100. Would the price you set be uniform through the field, or is it merely giving approval to the schedule that Royalite put to you?

THE CHAIRMAN: I simply would approve the schedule, Mr. Stevens-Guille, and if someone wishes to challenge it, then I would hear it on the merits.

MR. STEVENS-GUILLE: The schedule would be uniform throughout the field?

THE CHAIRMAN: I think it should be.

MR. STEVENS-GUILLE: It would not be a question of Royalite submitting their figures and you approving that is what they should charge and some other party possibly submitting a different schedule?

THE CHAIRMAN: Something covering the whole field.

MR. McDONALD: This covers delivering the gas direct from the well without this gas having gone through the absorption plant.

THE CHAIRMAN: I do not know.

MR. STEVENS-GUILLE: That is correct.

MR. McDONALD: If it goes through the absorption plant it will be 2 cents.

MR.STEVENS-GUILLE: What we have done is, because the situation alters from day to day - we have chrged the same in both cases because of the equity in the thing being this that the average amount a rig uses varies tremendously with a different user. So the difference of the gasoline content is a minor point. It was computed that way originally because at that time we were supplying wet gas.

THE CHAIRMAN: Do you deliver the gas or do they come and take it from the well?

MR. STEVENS-GUILLE: We deliver it from our nearest main line and in that contract on the North return fuel line, it is any point they designate on that North return fuel line.

THE CHAIRMAN: And they come to that point and take delivery of it there?

MR. STEVENS-GUILLE: Yes.

THE CHAIRMAN: So there is no expense to you?

MR. STEVENS-GUILLE: No sir.

THE CHAIRMAN: So it is simply your well head price is the basis of your calculation?

MR. STEVENS-GUILLE: Yes.

THE CHAIRMAN: I think you should simply file a schedule, that is the proper procedure as a matter of fact,

MR. STEVENS-GUILLE: Yes.

THE CHAIRMAN: File a schedule and let someone attack it if they wish to.

MR. McDONALD: What I had in mind is if the company desired to sell on this basis, that they advise the Board and apply for approval of the schedule on that particular sale.

THE CHAIRMAN: That is too much bother, is it not?

MR. McDONALD: I would say right now I think this schedule of $475.00 a month for relatively close to 700 M.C.F. a day is entirely reasonable.

MR. STEVENS-GUILLE: On the 2 cent basis. However, it will rise to something like $750.00 on a 3 cent basis.

THE CHAIRMAN: It will jump up 50%, but that is a very small item in the drilling of a well. Not on the new schedule, of course.

MR.HARRISON: When will you require the material?

THE CHAIRMAN: As soon as you can get it, Mr. Harrison.

MR.HARRISON: I will send out tonight for it.

THE CHAIRMAN: The sooner I can get this cursed job finished the sooner I will return to a reasonable state of sanity.

MR.HARRISON: I think you stated you will be here next week?

THE CHAIRMAN: I will be here Tuesday, Wednesday and Thursday. I think I mentioned that I would be free on Wednesday afternoon. I was wrong. It is Tuesday afternoon I will be free.

MR.HARRISON: You would like to have it in your hands some time before that so it could be finalized then.

THE CHAIRMAN: Yes. Can you do yours in the same time, Mr.Smith?

MR. SMITH: Yes.

THE CHAIRMAN: Will you give some thought to that absorption plant problem, Mr. McDonald?

MR. McDONALD: Yes.

THE CHAIRMAN: Actually the only thing that bothers me is the question of discrimination. Now do not say what you are thinking out loud, Mr. McDonald. Think about it and tell me about it next week.

MR.HARRISON: Do you consider that this meeting next week will be the last one from the standpoint of our getting this thing settled?

THE CHAIRMAN: I do not know. In other words I am not a prophet. I hope it will be though. Every time I turn

around there is something fresh. As Mr. Hamilton expressed it the other day "Just when you have something nailed down it pushes out somebody else."

(At this stage the Hearing was adjourned).

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